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## Viewing cable 04CARACAS2118, PDVSA - OIL COMPANY OR SOCIAL DEVELOPMENT AGENCY?

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**Understanding cables**
Every cable message consists of three parts:

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| Reference ID | Created | Released | Classification | Origin |
|---|---|---|---|---|
| 04CARACAS2118 | 2004-06-29 20:16 | 2011-08-30 01:44 | CONFIDENTIAL | Embassy Caracas |

Appears in these articles:
http://www.mcclatchydc.com/2011/05/16/114269/wikileaks-cables-show-oil-a-major.html

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This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L  CARACAS 002118

SIPDIS


NSC FOR TSHANNON AND CBARTON
ENERGY FOR DPUMPHREY AND ALOCKWOOD
SOUTHCOM FOR POLAD

E.O. 12958: DECL: 06/28/2014
TAGS: EPET EFIN PGOV VE ECON VE
SUBJECT: PDVSA - OIL COMPANY OR SOCIAL DEVELOPMENT AGENCY?

REF: CARACAS 2034 AND PREVIOUS

Classified By: ECONOMIC COUNSELOR RICHARD SANDERS; FOR REASONS 1.4 (B)
AND (D)

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SUMMARY
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¶1. (C)  Through budgetary and non-budgetary spending,
Petroleos de Venezuela (PDVSA) is now the primary agent for
implementation of Chavez Administration social programs.
Over $1.7 billion has been designated to social development
programs in PDVSA's 2004 budget while up to an additional $2
billion in PDVSA oil receipts will reportedly be used to
establish President Chavez's "Special Development Fund,"
supposedly for development of big ticket national
infrastructure projects.  In recent months, PDVSA has also
attempted to take over management of at least some part of
the funds budgeted by international oil companies for their
own corporate social responsibility programs in Venezuela.
When money is channeled directly through PDVSA, however, the
Chavez Administration is bypassing the accounting and
budgetary control that should rest with the National
Assembly.  A PDVSA debt buy-back program announced on June 28
may also help PDVSA to evade the transparency required by
U.S. financial sector regulations in the future.  The most
troubling aspect of this emphasis on PDVSA's new role as a
social welfare agency, however, is that it is deflecting the
company's attention from its core mission, oil production.
End summary.
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PDVSA: DEVELOPMENT PIGGY BANK
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¶2. (C) Recent developments have underscored that PDVSA is not simply "connected to the national development program" as Energy Minister Rafael Ramirez_ has put it, but is now the primary agent for implementation of Chavez Administration social programs. This trend began in 2003 when PDVSA affiliate CVP started funding a program to build affordable housing called "Oil for the People." (NOTE: In 2003, CVP, the Venezuelan Petroleum Corporation, was put in charge of the 33 existing operating agreements under which foreign oil companies do business in Venezuela as well as the four extra heavy crude projects. END NOTE) Under this program, CVP, working with the State-owned Venezuelan development bank BANDES, created a $300 million trust fund (since augmented to $500 million). The fund was designed to provide mortgages for the purchase of homes developed by the CVP. Supposedly, BANDES will repay the CVP trust fund when the homeowner pays off the loan.

¶3. (C) Starting in 2003, the Ministry of Energy and Mines (MEM) has also been designated either as the Ministry in charge or as a participant in a number of Chavez,s pet social plans. These include "Mision Ribas," the literacy plan; "Mision Barrio Adentro" (Inside the Neighborhood), the plan under which Cuban doctors provide medical services to the poor; "Mision Sucre," a plan to provide grants for higher education; and "Mision Vuelvan Caras" (About Face), a plan to provide job training to the poor. The funding for these efforts has come out of PDVSA. PDVSA has also made contributions in kind to President Chavez's programs. A number of Caracas properties formerly occupied by PDVSA have been turned over for the use of the recently formed Bolivarian University of Venezuela.

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PDVSA'S 2004 BUDGET
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¶4. (C) This trend has accelerated in 2004 with the announcement in January of PDVSA's 2004 budget in which $1.716 billion was budgeted for social development. These monies include $600 million earmarked to the CVP for a trust fund for agricultural development (the "Zamora Fund") as well as an additional $500 million, at least some of which will be allocated to the &Oil for the People8 housing program.

These funds were included in the investment portion of the PDVSA budget. An additional "Social Development Plans" line item under the "Other Costs and Expenses" portion of the PDVSA budget is budgeted at $616 million (Note: the MEM's participation in the various programs listed in Para. 3 may well be covered by this budget item but we cannot verify that.) In early 2004, PDVSA Gas also announced a new project, "Gas Adentro," (Gas Inside, i.e., the neighborhood ) a clear reference to the "Barrio Adentro" medical program) to provide bottled gas to poor sectors of Caracas and other major cities. According to a local consultant, the proposed funding for "Gas Adentro" is about 15 percent of PDVSA Gas' 2004 budget and the project appears to be a virtual give away of the gas.

¶5. (C) But there are other indicators of the change in PDVSA's role. At the Latin American Petroleum Show, held June 15-17 in Maracaibo, econoff attended a presentation by PDVSA detailing its plans for the development of the Tomoporo field, the most significant new oil prospect in Venezuela. The presentation included a slide listing the social development projects that will supposedly be included in the development of Tomoporo, including artesanal fishing and tourism development projects. The final slide revealed that, as part of the Tomoporo project, PDVSA will fund the development of a railroad in western Venezuela. This raises the possibility that additional "social development" or other project financing will now be included as a matter of course in the budgets for the development of oil and gas projects.

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DEEP POCKETS OF THE PRIVATE SECTOR
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¶6. (C) In the past few months, PDVSA, and particularly CVP, have also attempted to take over some portion of the social development budgets of at least some of the private sector oil companies present in Venezuela. The international oil companies (IOC's) have traditionally managed their own sustainable development programs to reflect their own vision of corporate social responsibility. In fact, ChevronTexaco recently won an OAS award for its program in Maracaibo. In early April, however, ChevronTexaco and the other companies that are expected to be involved in the development of off-shore oil and gas projects were summoned to a meeting in Sucre state. According to a participant, the CVP

representatives demanded that some percentage of company social development budgets be turned over to the CVP for project development. Sucre state representatives at the meeting said the money would be used to foster the various Chavez Administration social programs in the state. While IOC representatives have informed econoff that they are unwilling to simply give money to CVP, PDVSA and the MEM are pushing the companies to work on projects that will be defined by the GOV. These discussions continue.

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THE &SPECIAL DEVELOPMENT FUND8
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¶7. (C) Reftels reported on the diversion of an additional $2 billion of PDVSA funds into a "Special Development Fund" announced by President Chavez on May 23. At that time, Chavez stated that $2 billion in PDVSA funds would be transferred to BANDES to be used to finance national development projects such as a sugar mill, a new state airline, electricity projects, a subway line in a Caracas suburb, and an irrigation system in western Venezuela. Since then, observers have noted that most of these projects were already covered in other parts of the GOV budget. Most observers also commented that the proposed fund would be illegal under Venezuelan law that requires that PDVSA's dollar receipts be turned over to the Central Bank. The GOV has responded that it sought and received authorization from the Central Bank Board for the establishment of the fund.

¶8. (C) In a June 25 meeting with econcouns, Alejandro Dopazo, Finance Ministry Director General for Public Credit, underlined that, in his view, the most important issue is not that the money would not be run through the Central Bank but that there is not a coherent, on-budget system for accounting for it and spending it. Dopazo reported that a small, high level committee is now working to get this back onto a more legal track. He speculated that the means will be revision of the legislation governing the Macroeconomic Stabilization Fund (FIEM, a fund previously maintained by the GOV at the Central Bank, in theory to be built up during periods of high oil prices and drawn down when prices drop) so that some of the money placed in it can be spent on social projects. In any event, Dopazo claimed that nothing has been done with the money and that it has not been given to state bank BANDES as has been reported in the media.

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DEBT BUY BACK
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¶9. (C) In another development that could have a negative impact on PDVSA, taken as it is with its "social development" mandate, on June 28 PDVSA announced an offer to buy back up to $2.6 billion of its external debt. The offer is in the form of a "tender and consent" requiring all noteholders who accept the purchase price to agree to certain amendments to the current PDVSA Finance Ltd. transaction terms. If the tender is completed successfully, all holders of outstanding notes after completion of the tender will be bound by the amendments. The amendments include the removal of certain designated buyers for Venezuelan crude as well as a reduction in the volume of oil that must be sold through PDVSA Finance as collateral.

¶10. (C) According to a knowledgeable local energy analyst, on its face it appears that PDVSA is simply doing what a normal company would do, i.e., paying down its debt in a time of high revenues. However, this analyst believes that the goal of the buy back is an attempt to reduce the legal requirements on PDVSA to tell all about its operations. Depending on the type of bonds that PDVSA is successful in buying back, i.e., those that carry a requirement that PDVSA file an SEC report, the buy back could result in a reduction in the amount of financial information the company is required to give to U.S. regulators. Another Wall Street analyst questions whether the proposed amendments would also further open the door to the possibility of diversion of Venezuelan exports away from the U.S. market.

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COMMENT
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¶11. (C) In a time of high oil prices, it is reasonable to expect PDVSA to buy back debt and to contribute to GOV social programs (although in an earlier day it would have been to the FIEM, or Macroeconomic Stabilization Fund.) However, when money is channeled directly through PDVSA, the Chavez Administration is bypassing the accounting and budgetary responsibility that should rest with the National Assembly. BANDES, so far the preferred conduit for the PDVSA development funds, is also free of any significant oversight, even by the Superintendent of Banks. As noted above, it is also possible that PDVSA may in the future be able to evade the transparency required by U.S. financial sector

regulations.

¶12. (C) The most troubling aspect of this emphasis on PDVSA's new role as a social welfare agency, however, is that it is deflecting the company's attention from its core mission, oil production. PDVSA Vice President Felix Rodriguez recently admitted publicly that PDVSA had invested only 30 percent of its 2004 investment budget in the first five months of the year. A local energy analyst commented to econoff that, if this is true, PDVSA's capital investment in 2004 may well be less than in 2002. This investment is urgently needed to off-set Venezuela's natural production decline rate to maintain production once oil prices drop. With increasing resources given over to social development planning, PDVSA's management, already shorthanded, is being deflected away from managing Venezuela's oil industry to becoming a one-stop solve-all social welfare program funder/executor, a task for which none of the current managers has the training let alone the experience.
SHAPIRO